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before the
Public Meeting of U.S. Department of Health and Human Services, Food and Drug Administration and Task Force on Drug Importation
Docket # 2004N-0015

April 14, 2004

On behalf of the 350,000 members of National Taxpayers Union (NTU), I am most grateful to members of the Task Force and the Food and Drug Administration for the opportunity to offer comments on proposals to allow for importation or reimportation of prescription drugs into the United States. As a nonprofit, nonpartisan citizen organization founded in 1969, NTU has long opposed certain government laws and regulations that would manipulate free-market innovation, including price controls, rationing, and weakened patent protections. Importation proposals are only the latest in this long line of burdensome mechanisms. In our view, importation is fraught with fiscally and economically detrimental consequences for taxpayers and consumers alike.

The cost savings from importation may not be as great as advocates suggest. In November 2003 NTU studied the cost-saving claims behind Illinois Governor Rod Blagojevich's plan to import or re-import prescription drugs from Canada for use by state government employees and retirees.

Using data from the nationally-respected Congressional Budget Office (CBO), NTU analysts determined the possible savings from Blagojevich's plan to be in a range from 0 to 0.8 percent, not the 39 percent depicted in the study commissioned by the Governor. These paltry savings translate to a mere 99 cents per enrollee per month (based on the number of workers and retirees in the Illinois State Employees' Group Health Insurance Program).

The zero savings minimum is based on CBO's first analysis (July 22, 2003), which determined that Canadian imports would not produce any significant savings to consumers or taxpayers on a nationwide basis. The 0.8 percent maximum comes from an October 14, 2003 report estimating that total savings from a national reimportation bill (from Canada and 24 other countries), for all payers (both government and private), would be only $40.4 billion over a 2004-2013 scoring window.[1]

Although advocates of importation may cite their own analyses, NTU's research suggests that at a minimum, the implementation of such a plan nationwide could fall far short of the savings expectations from consumers. Worse, other costs associated with this proposal could prove much more damaging.

Importation would starve U.S. drug innovators of the vital capital they need to continue their role as world leaders in providing cutting-edge cures. Importing drugs at a price set by some other country would be, quite simply, a way to rob the pharmaceutical companies of revenue needed to fund research. However cheap it is to manufacture pills, private firms first undertake a tremendous financial gamble in order to formulate a drug breakthrough. According to the Tufts Center for the Study of Drug Development, a drug's formula costs pharmaceutical companies an average of $800 million, with a typical development and approval time of 14 years. For just one drug to be approved by the Food and Drug Administration, a company typically needs to screen between 5,000 and 10,000 compounds.

[1] For further findings, consult National Taxpayers Union Issue Brief 147, *Planning to Fail: The Illinois-Canadian Drug Plan*, November 3, 2003, available at www.ntu.org.

In a truly free-market economy, these long odds only make sense because risk-takers can reap the rewards when their hard work pays off. Far from being a cure-all, importation would allow the failed socialist policies of free-loading foreign nations to invade America, the last major island of pricing freedom (and health care innovation) in the world.

The free-market drug development environment, unique to the U.S., already yields substantial savings to taxpayers and consumers. American drug breakthroughs have had a documented effect in lowering other health care costs, for example by shortening hospital stays and obviating the need for expensive surgeries.

A study by NTU Adjunct Scholars William Orzechowski, Ph.D. and Robert C. Walker provides a great deal of research to support the notion that innovative drugs can control costs in state and federal programs over the long term, and increase productivity throughout the economy because of better worker health. According to the authors:

> [E]conomist Frank Lichtenberg has found that hospital time and surgical procedures declined fastest for patients with the greatest increase in the total number of drugs prescribed and with greater utilization of new drugs. … A $1 increase in pharmaceutical expenditures is associated with approximately a $4 reduction in other health expenditures. Incredibly, he found that 'in the absence of pharmaceutical innovation there would be no increase and perhaps a decrease in mean age at death. A one-time $15 billion expenditure of drug R&D subsequently saves about 1.6 million life years per year whose annual value is about $27 billion.'[2]

Unless the American tradition of free markets – which rewards risk-takers for products that benefit society – is upheld now, these cost savings could soon be a thing of the past.

Conclusion – Don't Import Price Controls. Instead of writing bogus bureaucratic prescriptions for health care reform, policymakers should pursue pro-taxpayer options, like wider availability for medical expense deductions and tax credits for the uninsured. The proven-successful concept of "Health Savings Accounts" should also make a more substantive contribution toward reform.

Furthermore, private and public entities could contain costs without risking patients, through "disease management" strategies that reduce non-drug health costs like hospitalization and surgery with closely-monitored long-term pharmaceutical therapies. Our November 2003 study cites two of many cases – the PacifiCare Health Systems initiatives for renal and heart disease and the "CarePatterns" Disease Management Program for diabetes – that demonstrate the viability of consumer-based alternatives to importation schemes.

Americans won't get a "second chance" if prescription drug importation proposals undermine the cost savings and cures that our nation's unrivalled free-market approach to medical development currently provides. For this reason alone, policymakers have a special obligation to avoid all of the reckless and politically-shortsighted importation plans. In doing so, they will protect the well-being of taxpayers and patients.

Once again, I appreciate the opportunity to furnish our views, and will gladly answer any questions that members of the Task Force or the Food and Drug Administration may have.

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[2] For further findings, consult William Orzechowski, Ph.D. and Robert C. Walker, *Stealing Innovation: How Congress's Assault on Patent Laws Sacrifices Miracle Cures for Cheap Pills*, September 2002, available at www.ntu.org.